

**NEW ECONOMY
PRELIMINARY ACTION PLAN**

ACTION
Agenda Item E-3
July 17, 2000

Recommendation:

That the Council approve the attached New Economy Preliminary Action Plan as the framework for carrying out the Council's duties under House Bill 572, the Kentucky Innovation Act.

Rationale:

The Preliminary Action Plan enables the Council staff to begin implementing the Innovation Act while letting the Council review Innovation Act initiatives at the September and later Council meetings.

Background:

Under the Kentucky Innovation Act passed during the 2000 General Assembly session, the Council will oversee four initiatives to stimulate research and development, university-business collaboration, and rural involvement in high technology growth:

- Research and Development Voucher Program (\$3 million in 2001-02). Upon successful application, small and medium-size Kentucky-based companies will receive vouchers redeemable at Kentucky universities to fund not more than half the cost of research and development on technologies with commercial potential. The maximum amount of voucher funds awarded to a qualified company will not exceed \$200,000 over a two-year period.
- Commercialization Program (\$750,000 in 2001-02). This program will provide initial funding for technologies with commercial potential developed in Kentucky's universities and help create businesses based on university research and development.
- Regional Technology Corporations (\$500,000 in 2001-02). These nonprofit corporations will support clusters of knowledge-based businesses, primarily in rural areas of Kentucky. Support will include strategic and financial planning, information exchange, recruitment of new suppliers and vendors to the cluster, and help in creating new curricula and other educational offerings to train the workforce within the cluster. Public and private organizations, including postsecondary institutions, may participate in activities organized by the regional technology corporations.
- Rural Innovation Program (\$1 million in 2001-02). This program will fund research, development, and entrepreneurial projects proposed by rural Kentucky-based small companies in partnership with Kentucky postsecondary institutions, the Small Business Development Center Network in Kentucky, and other research and development

organizations. The goal is to spur innovative growth and competitiveness in rural areas of the state.

In its 2000-02 budget request to the Governor, the Council recommended creation of the first three programs, for which the Council would have policy responsibility and which would be funded through the Science and Technology Trust Fund. The Council was assigned responsibility in the Innovation Act for the fourth program. The Council will report annually on the performance of these initiatives to the Governor, the General Assembly, and the Kentucky Innovation Commission, the advisory body created by the Innovation Act. The Act names the President of the Council as one of the Commission's 15 members.

In addition, the Council acts as a fiscal pass-through agent for funding of two other new initiatives mandated in the Act, both of which will be conducted or managed by the private, not-for-profit Kentucky Science and Technology Corporation: the Entrepreneurial Audit (\$250,000 in 2000-01) and the Kentucky Science and Engineering Foundation (\$4 million in 2000-01).

The Cabinet for Economic Development will oversee other programs created by the Innovation Act. The Council and the Cabinet are expected to coordinate their efforts on Act-related matters. A summary of the Act is attached.

ATTACHMENT A: New Economy Preliminary Action Plan Proposed

To compete successfully in a new economy driven by rapid technological change and knowledge-intensive activity, Kentucky needs more effective partnerships between postsecondary institutions and small and medium-sized firms. Kentucky's scientists and entrepreneurs need help converting ("commercializing") the results of basic research into marketable products. House Bill 572, the Kentucky Innovation Act passed during the 2000 legislative session, addresses these needs and puts universities and colleges at the center of the state's new economy efforts. The Act gives the Council on Postsecondary Education policy leadership for four new programs and makes the Council the fiscal pass-through agent for two other initiatives.

A. Research and Development Voucher, Commercialization, and Rural Innovation Programs; Regional Technology Corporations

1. The Act says the Council "shall" contract with a "science and technology organization" to administer the Research and Development Voucher and Commercialization Programs and "may" do the same for the Rural Innovation Program and the Regional Technology Corporations. The Council staff recommends that the four programs be administered by one science and technology organization, to streamline communications and reduce overhead expenses. The Act gives the Council the right to contract with the Kentucky Science and Technology Corporation for these purposes.
2. The Council directs its staff to execute by October 15, 2000, a legal agreement between the Council and the science and technology organization to administer the four programs. The legal agreement will include provisions for application criteria and review, disbursement of program funds by the Council, administrative and overhead expense, documentation, reporting guidelines, and performance evaluation of the program administrator. The Council staff will inform the Kentucky Innovation Commission about the legal agreement. The science and technology organization will submit an acceptable operating plan for administering the four programs, including a description of its capacity to do so.
3. In fall and winter 2000-01, the Council staff will work with the science and technology organization to publicize the four programs statewide, to identify possible applicants, and to encourage application.
4. In spring 2001, the science and technology organization will receive and review applications for the four programs and will select recipients based on Council-approved application and review criteria. Recipients will be funded in July 2001.
5. In July 2001, the Council will submit its first annual report on these four programs to the Governor, the General Assembly, and the Kentucky Innovation Commission.

B. Kentucky Science and Engineering Foundation

The Innovation Act directs the Kentucky Science and Technology Corporation to create and manage the Kentucky Science and Engineering Foundation as a means to increase the competitiveness of research within the state. The Council will be the fiscal agent for the funds appropriated to create and manage the Science and Engineering Foundation. The Kentucky Experimental Program to Stimulate Competitive Research (EPSCoR) is already administered by the Kentucky Science and Technology Corporation and funded through the Council. EPSCoR funding will become part of the Science and Engineering Foundation. The Council directs its staff to execute by September 1, 2000, a legal agreement between the Council and the Kentucky Science and Technology Corporation covering transfer of the appropriated funds to, operations of, and financial reporting by the Kentucky Science and Engineering Foundation and EPSCoR.

C. Entrepreneurial Audit

The Act directs the Kentucky Science and Technology Corporation to conduct an audit of statutes, regulations, and policies that may hinder the development of high-technology entrepreneurial ventures in Kentucky. The Council will be the fiscal agent for the appropriation funding the audit. The Council directs its staff to execute by September 1, 2000, a legal agreement between the Council and the Kentucky Science and Technology Corporation relating to transfer of the appropriated funds and to financial reporting on the audit to be conducted by the Corporation.

ATTACHMENT B

HOUSE BILL 572 (AS ENACTED)

House Bill 572 is an ACT relating to research, innovation, and technology businesses. HB 572 is a comprehensive attempt to establish Kentucky as proactive in the new economy by:

- Promoting applied research in the state's postsecondary institutions;
- Encouraging business innovation throughout the state;
- Attracting high-tech enterprises to Kentucky; and
- Advancing the higher-order skills of an educated workforce.

Kentucky is struggling in the areas of innovation, the numbers of highly skilled employees, entrepreneurs, research grants, and use of the Internet. The General Assembly and the Governor acted in the 2000 Regular Session to assist Kentucky in transforming the economy to fit the demands of a digital age. *Strategy*, a publication by the Kentucky Science and Technology Corporation, sponsored by the Governor's Office, set forth the need for change and recommended ten strategic changes in public policy. HB 572 and the accompanying budget gave concrete realization to most of these strategies.

HB 572 uses multiple components to create change including an oversight advisory commission in the Governor's Office called the Kentucky Innovation Commission. This Commission has the duty to monitor and report Kentucky's progress in becoming a knowledge-based innovative environment.

The primary state agencies responsible for administering HB 572 are the Council on Postsecondary Education and the Cabinet for Economic Development. The Council on Postsecondary Education plays a major role attracting research and development work and supporting innovation and inventions through three fund programs.

- The Research and Development Voucher Program provides state funds on a match basis to medium-size and small companies for R & D work with a university, with a maximum voucher award of \$200,000 over two years;
- The Kentucky Rural Innovation Program provides seed funds to Kentucky rural small businesses to produce new technologies with a maximum voucher award of \$50,000 over two years; and
- The Kentucky Commercialization Fund Program provides seed funds to Kentucky universities for the development of promising technologies and commercially successful products, processes or services, with a maximum grant of \$225,000 over three years.

The Council on Postsecondary Education also has the responsibility to create non-profit regional technology corporations to support vital business clusters and key supplier chains, with a maximum state funding of \$125,000 per corporation. Additionally the Council receives a \$250,000 pass-through appropriation for the Kentucky Science and Technology Corporation to do an entrepreneurial policy audit to identify antiquated public policies, and an appropriation of \$4,000,000 to create a Kentucky Science and Engineering Foundation to fund and attract research and development work to Kentucky.

The Cabinet for Economic Development has a major role through the creation of an Office of the Commissioner for the New Economy to undertake a strategic technology capacity initiative to develop a strategy to assist and attract knowledge-based companies to Kentucky. Additionally, the Office will recommend to the Kentucky Economic Development Finance Authority (KEDFA) projects meriting funding through the high-tech construction pool and the high-tech investment pool of \$20,000,000 each as designated in the 2000 Regular Session budget bill. Finally, the Cabinet receives a \$350,000 pass-through appropriation for the Kentucky Technology Service, Inc. to assist manufacturers to become more competitive by creating new product lines, additional value-added products, and new manufacturing methods.

(Bill summary by the Legislative Research Commission; full text of bill at <http://www.lrc.state.ky.us/record/00rs/HB572.htm>)

